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SUBJECT: BUILDING FOUNDATION FOR A NEW BEGINNING IN DEFENSE TRADE
BETWEEN U.S. AND VIETNAM

1. (SBU) SUMMARY: Since Prime Minister Nguyen Tan Dung's visit to the U.S. in June 2008, which included an unprecedented meeting at the Pentagon, both the Vietnamese Ministry of Defense (MOD) and Ministry of Public Security (MPS) have demonstrated previously unseen interest in buying non-lethal products from U.S. defense and information technology (IT) firms. At the request of the Vietnamese a number of U.S. companies have visited MOD, MPS and the SOEs they control over the last eight months to explore potential non-lethal areas of cooperation. Vietnamese interest at this point appears focused on building up search and rescue, disaster relief, infrastructure and coastal monitoring capabilities. End Summary.

2. (SBU) Prime Minister Dung's June 2008 visit to the U.S. and the Pentagon opened the door to increased U.S. - Vietnam defense cooperation. During the visit, MOD officials met with various U.S. defense manufacturers for the first time to view product lines available for sale to Vietnam. DOD officials reiterated the 2006 decision allowing the sale of only non-lethal equipment to Vietnam. A People's Army of Vietnam (PAVN) Deputy Chief of General Staff visit to the Pentagon and a number of U.S. defense contractors followed in May 2009. Other examples of increased cooperation within the same period are the first U.S. Navy ship visit to a Vietnamese port in 30 years where the Deputy Minister of MOD visited the ship, the first flyout to a U.S. aircraft carrier, the first invitation to the U.S. Defense Attach??? to observe a search and rescue exercise, and the first commercial venture for a Vietnamese firm to conduct maintenance on a USN logistics ship.

3. (SBU) In June 2008, U.S. firms iDirect, ASC Signal and Cisco were part of a group of companies awarded a USD 12.6 million contract with MOD to build a satellite communication backbone. Three different U.S. defense contractors (Raytheon, Lockheed Martin, and Northrup Grumman/Sperry Marine) met in July and August of this year with the Vietnamese Navy, Marine Police, and MOD officials to discuss the possibility of selling coastal surveillance command and control and radars to Vietnam to help monitor their coastal waters. This equipment would not only help the Vietnamese monitor weather and shipping traffic and combat illegal activity, but also keep an eye on the situation in the South China Sea. U.S. firms such as ITT Defense, Raytheon, Northrup Grumman, and General Dynamics have pitched MOD and the Ministries of Transportation and Industry and Trade on technology and equipment to help build and improve toll roads, airports, and search and rescue capabilities.

15. (SBU) In the last two months representatives of MOD and MPS met with Enstrom, Bell Textron, and Sikorsky helicopter companies to discuss buying new helicopters and refurbishing their old Bell UH-1s to assist in upgrading Vietnam's search and rescue, disaster relief, and coastal surveillance capabilities. In the case of new helicopters, Vietnamese officials asked if the U.S. firms could sell aircraft equipped with Forward Looking Infrared Radar (FLIR) observation systems. The Vietnamese government and military wanted to know if FLIR systems are restricted for sale, similar to night vision equipment, for use in humanitarian missions like search and rescue and disaster relief. The Vietnamese Southwest Service Flight Company (SSFC) signed a memorandum of agreement in August 2009 with Sikorsky Australia to sell helicopters to SSFC for transportation to and from off-shore oil platforms in the South China Sea.

16. (SBU) COMMENT: No major deals have been concluded and discussions are in early stages, but this Vietnamese interest is new. Concern about China's reaction will serve as a brake on developments and any purchases from U.S. firms will likely move in concert with overall progress in U.S.-Vietnamese diplomatic and military ties. The GVN appears more willing to do business with U.S. companies if they are part of a consortium or have foreign-based subsidiaries which could conduct the transaction. The GVN also appears willing to purchase U.S. equipment for non-sensitive purposes - communications, safety, and navigation.

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Vietnam's low total defense budget of around USD 4 billion would likely limit the size of purchases. Although there have been recent indications of progress, GVN failure to accept Foreign Military Sales (FMS) also inhibits sales in the short term. END COMMENT.
Michalak